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SUBJECT: COSTA RICAN BUDGET TRANSPARENCY

REF: A) STATE 28885
B) 08 SAN JOSE 0220

¶1. SUMMARY: Embassy San Jose continues to affirm the transparent fiscal management of Costa Rica's national budget. Minister of Finance Guillermo Zuniga leads a reform-minded ministry that is committed to advancing management and budgeting sophistication while providing public access to the Ministry's publications. The Department of Treasury's Office of Technical Assistance's (OTA) programs on tax administration, budget management, and debt management have enhanced the Minister's reform efforts. As a conscious policy, the Ministry strives to further improve transparency to move taxpayers from the informal sector to the formal sector by enhancing the Ministry's credibility and reputation. In short, the answer is "yes" to all the questions posed by Ref A, per the SFOAA 2009: Costa Rica will receive USG assistance in FY 2009; the GOCR's budget, including income and expenditure figures, is publicly available; and those public figures are accurate. END SUMMARY.

MINISTRY OF FINANCE PRACTICES TRANSPARENCY

¶2. Post prepared the following responses to the questions presented in Ref A:

-- Is the central government expected to receive, or is it already receiving U.S. foreign assistance funded using FY 2009 funds?

Yes. For FY 2009, the GOCR will receive USG assistance in the form of Foreign Military Financing (FMF), International Military Education and Training (IMET), International Narcotics Control and Law Enforcement (INCLE), and other funding, most of which support important bilateral and regional security and law enforcement programs, including the Merida Initiative.

-- Is the host country's budget publicly available?

Yes. GOCR Budget documents are public and readily accessible through the internet. The Ministry of Finance provides the budget in both hard copy and digital formats. For example, the budget for 2009 is available at the following webpage address:

<https://www.hacienda.go.cr/NR/rdonlyres/F0DEF0D2-E58D-4F20-9709-F2156BB8DD43/21387/Ley2009Ingresos.pdf>

In addition, budget documents are available on the Ministry of Finance's website for years 2004-2008.

-- Are incomes and expenditures included in the publicly-available budget?

Yes. Both the revenue and expenditure sides of the fiscal ledger are publicly available. In fact, the Ministry of Finance openly discusses fiscal spending scenarios within the national budget with

the national legislature each November, the designated month for annual budget debate and approval by the legislature.

-- Do publicly-available budget documents accurately reflect actual government incomes and expenditures?

Yes, and increasingly so as the Ministry of Finance is improving its overall budget management, with U.S. Treasury OTA assistance.

BUDGETING IMPROVEMENTS CONTINUE

¶3. Since last year's report (Ref B), the Ministry of Finance launched an office of Internal Affairs (IA) unit -- akin to an inspector general's office -- to investigate illicit activity or corruption within the Ministry. Guided by OTA assistance, the IA unit completed 12 investigations, processed 22 complaints (referring one for criminal investigation), and processed five administrative actions with employees in 2008. Vice Minister of Revenue Administration Jenny Phillips recently told us that the work of the IA unit is vital to building confidence among Costa Rica's citizenry for two reasons: (1) to further build operational credibility of the Ministry (which is relatively better-run than most finance ministries in Latin America) and (2) to attract more taxpayers from the informal sector into the formal sector.

¶4. As for USG assistance to the Ministry, Minister Zuniga recently praised OTA programs in a meeting with Treasury DAS Nancy Lee at the IDB meeting in Medellin. He stated that OTA programs were "tremendously helpful in areas such as tax collection, Treasury management, and expenditure evaluation." As we concluded in last year's report, the partnership of Costa Rica's Ministry of Finance and the OTA has been a win-win situation for the GOCR and the USG.

¶5. COMMENT: Costa Rica's April 2, 2009 inclusion as one of four countries in the OECD's list of "jurisdictions that have not committed to the international agreed tax standard" will likely increase the current Costa Rican administration's work with OTA. On April 3, Post received a call from Minister Zuniga himself emphasizing his acceptance of the OTA suggestion that Costa Rica regulate the Internet gambling sector using Antigua as a possible model. (This is following a recent OTA assessment visit, septel.)

WILSON